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SPECIAL ANALYSIS H

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

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The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

OFFICE OF MANAGEMENT AND BUDGET
EXECUTIVE OFFICE OF THE PRESIDENT
February 1982

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SPECIAL ANALYSIS H

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS [1]

State and local governments have a vital constitutional role in providing government services. The Federal Government contributes directly to that role by providing grants-in-aid and loans to States and localities, and contributes indirectly through policies designed to improve the economy.

In the last two decades, the Federal Government role in domestic programs has become excessive. Grant-in-aid outlays grew by an extraordinary annual rate of 11.0% from 1961 to 1981, with many regulations and restrictions on what States and localities could and could not do. As a result, the Federal Government imposed its programs and priorities on States or localities. This growing Federal role has been reversed. Narrow categorical grants are being cut back sharply. At the same time, there are significant increases in broad-based Federal aid that allow States and localities to determine how funds should be spent.

The administration proposes grant-in-aid outlays that are estimated to be $81.4 billion in 1983, $9.8 billion below the 1982 estimate of $91.2 billion, and $13.3 billion lower than the 1981 total of $94.8 billion. General purpose and broad-based aid is expected to grow from $16.9 billion in 1981 to $20.7 billion in 1983. All other grants decline from $77.9 billion in 1981 to $60.8 billion in 1983.

Many substantial successes have already been achieved in reducing the intrusion of the Federal Government. The Omnibus Budget Reconciliation Act of 1981 established nine new block grants, consolidating 57 categorical grants. These consolidations were for: maternal and child health; preventive health and health services; alcohol, drug abuse, and mental health; primary health care; social services; low-income home energy assistance; community services; State education block grant; and State community development for small cities. This latter grant was a change to an existing block grant—the community development block grant program—and allowed States, on an optional basis, to administer a portion of this program. These block grants have been established with much simpler administrative requirements than the predecessor pro-

[1] Federal aid to State and local governments is defined as the provision of resources by the Federal Government to support a State or local program of governmental service to the public. The three primary forms of aid are grants-in-aid (including shared revenues), loans, and tax expenditures. Unless specifically indicated to the contrary, reference to "Federal aid" or "grants" in this analysis is confined only to grants-in-aid (including shared revenues).

grams. For example, for grants that are now covered by the seven recently enacted block grants administered by the Department of Health and Human Services, regulations have been reduced from 318 to 6 pages in the Federal Register. Paperwork requirements associated with these programs are estimated to be reduced by an estimated 5.2 million hours in 1982, or by 86%.

The major new proposals in this budget that further reduce the Federal role in domestic programs are for:

- the federalism initiative, a major reshaping of the fiscal relationship between the Federal Government and State and local governments, that would begin in 1984 and dramatically reduce the Federal role in domestic programs; and
- proposals for 1983 for seven new consolidated grants and additions to three existing block grants.

The Federalism Initiative

The federalism initiative has two major components:

- a Federal take-over of medicaid in return for State takeover of food stamps and aid to families with dependent children (AFDC)—a $20 billion exchange; and
- a turnback of more than 40 Federal education, transportation, community development, and social service programs to States, financed by existing excise taxes on gasoline, tobacco, alcohol, and telephone services, and by the oil windfall profit tax.

Swap component.—In this component, the Federal Government would assume the full cost of medicaid, which is estimated to cost States and localities $19.1 billion in 1984. States and localities would no longer be responsible for these expenses. In return they would be responsible for the full costs of AFDC and food stamp programs, estimated to be $16.5 billion in 1984. This exchange would result in a clear distinction of governmental roles. The Federal Government would be responsible for health insurance and medical assistance—including both medicaid and medicare—and the States and localities would be responsible for cash assistance for the non-elderly needy, through State and local substitutes for existing food stamp and AFDC programs.

Turnback component.—In this component, a separate allocation would be established for each State beginning in 1984 and lasting through 1987, which would receive receipts from the Federal taxes on gasoline, tobacco, alcohol, telephone services, and the oil windfall tax. Outlays from the fund would depend on decisions made by the States. For specified programs, States could continue to receive grants controlled by the Federal Government or they could cancel participation in the Federal grant program, and receive in place of

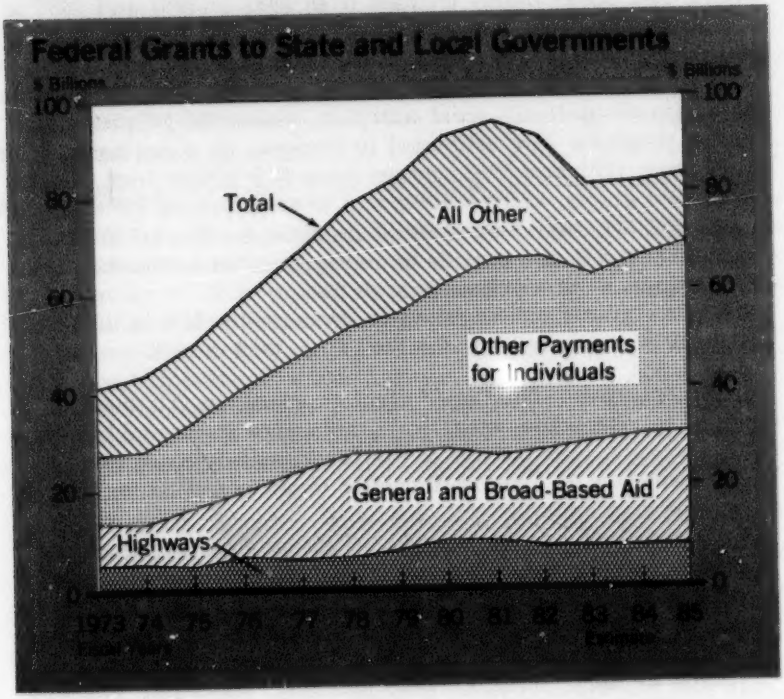
the grants equal amounts of funds that could be used for any purpose.

Beginning in 1988 the Federal Government would no longer fund these grants. Federal taxes to finance these programs would be reduced 25% each year and States would have the choice of taking over these taxes themselves to assist in financing the programs they choose to continue.

The swap and turnback components of the federalism initiative would involve about $50 billion in 1984, more than 60% of estimated grant-in-aid outlays.

Further details of this initiative will be worked out in close consultation with the Congress and State and local officials. Therefore, details are not yet available and the grants-in-aid data for 1984 in this Special Analysis do not take into consideration the financial transactions of the federalism initiative. The initiative is discussed further in Part 3 of the *1983 Budget of the United States Government.*

Federal lending to State and local governments and loan guarantees are another significant source of Federal aid. In 1983 the Federal Government is expected to disburse $2.9 billion for new loans to State and local governments. Loan outlays net of repay-



ments and sales are expected to be $0.8 million. New guaranteed loans to State and local governments are estimated to be $167 million in 1983.

The accompanying chart shows trends in major grant categories since 1973. General purpose and broad-based aid are expected to grow substantially in the next few years. Payments for individuals, such as medicaid, are a large and growing part of grants-in-aid. Grants for highways continue to be significant. All other grants are expected to decline through 1985.

Highlights of the Federal Aid Program

Summary of changes.—When this administration took office a dramatic change in Federal policy was necessary to revitalize the economy and to devolve authority for certain government functions to State and local governments. This new policy has resulted in a reduction in grants and a shift away from categorical grants to block grants.

The increased tax base available to State and local governments due to the recently enacted Federal tax cuts, and the existing and proposed block grants, allow the States the capacity to meet their greatest priorities and needs.

Table H-1 shows outlay changes from 1981 to 1982 and 1982 to 1983 divided into two categories: those grants that finance State or local payments for individuals, and all other grants.

Grants that are subsequently paid as income support for individuals—such as medicaid, child nutrition, assistance payments, and housing programs—are estimated to increase, on a net basis, $1.6 billion from 1981 and 1982 and decrease $3.9 billion from 1982 to 1983. These grants, which will amount to an estimated $37.6 billion in 1983 outlays, take a substantial financial burden off State and local governments and provide large supplements to the economies of the area in which the beneficiaries live.

All other grants are expected to decrease by $5.1 billion from 1981 to 1982 and decrease $5.9 billion from 1982 to 1983.

Major proposals.—The major grant proposals in this budget are designed to consolidate categorical grants, give States and localities more discretion over the use of the funds, and decrease State and local dependence on Federal financing. Grant consolidation proposals are for:

Vocational and adult education.—This proposal combines eight smaller grants into one consolidated grant. The eight smaller grants are: basic grants, program improvement and supportive services, programs of national significance, special programs for the disadvantaged, consumer and homemaker education, State advisory councils, State planning, and adult education grants to States.

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Table H–1. **FEDERAL GRANT-IN-AID CHANGES, 1981–83**

(Outlays in billions of dollars)

	Outlays
Total grants, 1981 actual	94.8
Changes	
Payments for individuals:	
Medicaid	1.0
Child nutrition programs	−0.7
Assistance payments (AFDC)	−0.4
Housing programs	0.7
Other	0.9
Subtotal payments for individuals	1.6
Other programs:	
General revenue sharing	−0.6
Federal aid highways (trust fund)	−0.8
Training and employment	−3.8
Other	0.1
Subtotal, other programs	−5.1
Total grants, 1982 estimate	91.2
Changes	
Payments for individuals:	
Medicaid [1]	−0.8
Nutrition assistance for Puerto Rico	0.8
Assistance payments program (AFDC) [1]	−2.6
Other	−1.3
Subtotal, payments for individuals [1]	−3.9
Other programs:	
Sewage treatment plant construction	−0.7
Elementary, seconday and vocational education	−1.6
Training and employment	−2.2
Social services activities	−1.3
Other	−0.2
Subtotal, other programs	−5.9
Total grants, 1983 estimate	**81.4**

[1] Decline is explained in part due to the proposed consolidation of State administration grants for medicaid, food stamps, and assistance payments and their reclassification in 1983 as "other programs," not "payments for individuals."

Education for the handicapped.—This proposal will consolidate 13 different education programs for the handicapped. Budget authority of $836 million is proposed for 1983, roughly $50 million less than for the 13 programs in 1982.

Employment and training.—Four separate programs authorized by the Comprehensive Employment and Training Act are proposed for consolidation to allow States more flexibility in responding to local needs. Proposed 1983 budget authority is $1.8 billion compared to $2.2 billion for the individual programs in 1982.

Rehabilitation services.—This proposal would combine basic State grants together with several project grant authorities into one consolidated grant for rehabilitation services. Proposed budget authority for 1983 for the consolidated grant is $624 million, compared to $835 million for 1982 for the predecessor programs.

Child welfare grant.—This proposal would combine the four current programs for foster care, child welfare services, adoption

assistance, and child welfare training into one grant. Budget authority proposed for 1983 is $380 million, $185 million less than in the four smaller programs in 1982.

Rental rehabilitation grants.—This proposal would combine the rehabilitation loan fund and the Section 8 moderate rehabilitation program into one grant program to States and localities to assist them in rehabilitating multi-family, rental properties, principally for lower-income tenants. Budget authority of $150 million is proposed for 1983, compared to a level of $49 million in new 1982 budget authority for the programs that this grant would replace. It is estimated that this requested budget authority would assist in the rehabilitation of 30,000 housing units. Outlays are expected to begin in 1984.

Combined welfare administration.—This consolidation would combine grants for State administration of medicaid, AFDC, and food stamps. Budget authority, in the Departments of Agriculture and Health and Human Services, of $2.2 billion is proposed for 1983, compared to $2.3 billion for 1982. This consolidated grant will encourage more efficient and effective administration of these programs until the transfer of these programs under the federalism initiative.

In addition to these new grant consolidations, the administration proposes to expand three block grants enacted in 1981:

Primary care.—The health grant for primary care would be expanded to cover the black lung clinics, migrant health, and family planning programs. Budget authority for the proposal would be $417 million for 1983, an increase of $166 million to cover the three smaller programs. This increase is the same amount of budget authority proposed for the three smaller programs for 1982.

Services for women, infants, and children.—The maternal and child health services block grant enacted in 1981 would be expanded to include the nutrition program for women, infants, and children (WIC). Proposed 1983 budget authority for the block grant is $1.0 billion, an increase of $652 million from 1982. The requested 1983 budget authority is $0.3 billion less than the 1982 level for the separate programs. This reflects administrative economies and the strengthening of programs resulting from consolidation.

Energy and emergency assistance.—This proposal would add the emergency assistance program to the existing low-income home energy assistance block grant, in order to increase flexibility available to States in aiding low-income persons who need special assistance for hardships, including aid to help pay fuel bills. Budget authority of $1.2 billion is proposed for 1983, compared to $1.6 billion for 1982.

Other highlights.—Energy conservation grants for low income home weatherization and for energy saving investments in schools and hospitals and for other purposes are proposed to be phased out by 1984. Termination of these programs will be administered by the Department of Commerce beginning in 1983, as part of the administration's proposal to dismantle the Department of Energy. Realistic energy prices have eliminated the need for government spending on these conservation subsidies.

Outlays for the Environmental Protection Agency's program for construction of *sewage treatment plants* are expected to be $3.4 billion in 1983, a decrease of $0.7 billion from 1982. The administration requests budget authority of $2.4 billion for the program in both 1982 and 1983. This program provides grants to both State and local governments for 75% of the cost of planning, designing, and constructing sewage treatment plants. Under the Federal Water Pollution Control Act, as amended, more than $23 billion has been provided to implement this program. With almost 12,000 projects currently underway, the administration is encouraging the States to assume responsibility for program management and implementation. This program is proposed for inclusion in the federalism initiative discussed earlier.

Budget authority of $228 million in 1982 and $184 million in 1983 for grants to support State regulatory, enforcement, and administrative pollution control activities is requested. These grant programs include: air quality, water quality, public water supply, underground injection control, hazardous wastes, pesticides certification and training, and pesticides enforcement. Several other abatement, control, and compliance grants in EPA are proposed to be phased out.

Grants through the land and water conservation fund, the urban parks program, the historic preservation fund and other programs assist States and localities in the management of natural resources. No new budget authority is requested for these programs in 1983, although grants awarded in prior years will have outlays in 1983 and 1984.

Grants from the abandoned mine fund allow States to reclaim lands degraded by coal mining. Outlays are estimated to be $96 million in 1983, an increase of $20 million from $76 million in 1982. Grants for State fish and wildlife restoration and management projects, funded from federally collected excise taxes, are estimated to be $133 million in 1983. This is an increase of $5 million from the 1982 outlays of $128 million.

Grants in the agriculture function are made through the Commodity Credit Corporation, the extension service, and cooperative State research service. Outlays for these programs are estimated to be $896 million in 1982, and $859 million in 1983.

Outlays for *highways* are estimated to be $8.4 billion in 1983 and will focus on needs of the interstate and primary highway systems. States and localities will be expected to assume greater responsibility for roads used mostly for intrastate traffic. The Federal-aid highway programs, with the exception of the interstate system, have been identified for inclusion in the new federalism initiative and eventual turnback to the States.

Grant outlays for *urban mass transportation,* are estimated to be $3.1 billion in 1983, $0.6 billion lower than the 1982 estimate. Formula grants for operating subsidies will be phased out by 1985. Construction grants will be directed primarily toward modernization and repair of existing, proven transit systems. Transit grant programs have been identified for inclusion in the new federalism initiative and eventual turnback to the States.

Funding for the planning and construction of new rail transit systems will be postponed at least until the economy improves.

The administration proposes to eliminate the *economic development assistance* administered by the Economic Development Administration in 1983. As these programs are phased out, funds for State and local community and economic development programs will continue to be available under the more flexible grant programs administered by the Department of Housing and Urban Development. Specialized assistance for rural areas will continue to be available through the Farmers Home Administration.

Community development block grant funds will continue to provide assistance directly to local governments through either entitlement or discretionary grants. Recipients have considerable freedom in selecting projects under this program, so long as they are within the general guidelines of community and economic development and mainly assist people with low and moderate incomes. Budget authority proposed for 1983—the same as approved for 1982—is $3,456 million. It is estimated that $2.5 billion of this amount would be used for large cities and urban counties and $0.9 billion would be used for nonentitlement small cities and rural communities. This $0.9 billion portion of the program that States may elect to administer is the recently enacted *State community development block grant program for small cities.*

The *urban development action grant* program provides discretionary grants to severely distressed cities and urban counties to supplement local government and private sector financing for major economic development projects. They are designed to promote local economic revitalization, generate new jobs, and increase local tax bases. Budget authority proposed for 1983 for this program is $440 million, the same as in 1982.

Federal support for the Title V regional commissions was discontinued at the end of 1981. Continuation of the commissions was unnecessary because nearly all of the commissions' projects dupli-

cated activities that would normally be undertaken by State agencies without Federal support.

Grant outlays for *elementary, secondary, and vocational* education are estimated to be $5.1 billion in 1983, $1.6 billion less than in 1982. The largest of these grants go to State and local education agencies as grants for disadvantaged students.

State education block grants enacted in 1981 combined 40 categorical programs, only 27 of which have been funded in recent years. This consolidation will give States considerably more flexibility in the use of these funds. Outlays for the block grant and related programs are estimated to be $527 million in 1983, $56 million less than in 1982.

The budget also includes a substantial reduction in the *impact aid* program. This program is intended to compensate school districts for the burdens imposed by federally related activities. Much of the aid now goes to school districts where the Federal activity does not place a special burden on the local community. The budget request would limit *impact aid* to only those districts that serve pupils who live on and whose parents work on Federal property.

Grant programs that provided for temporary federally subsidized jobs in State and local governments have been phased out. Legislation creating a new block grant to the States for training activities is proposed to replace four grants now authorized by CETA. This proposal will include provisions to encourage increased coordination between State education and training programs and would, by eliminating stipends, prevent overlap with income maintenance programs. Total outlays are expected to be $1.5 billion in 1983, $900 million of which is from the new block grant.

During 1981 a new social services block grant was created, combining a number of social services and related activities. Outlays for this block grant are expected to be $2.0 billion in 1983, $0.9 billion less than 1982. A new community services block grant was also enacted in 1981. Outlays in 1983 will be $100 million, $248 million less than in 1982.

The *medicaid* program continues to be a large grant-in-aid with estimated outlays of $17.0 billion in 1983. This program supports State efforts to provide health services to low-income residents. The administration is proposing reforms to medicaid that would save an estimated $1.9 billion in outlays in 1983. The largest of these reforms would reduce the Federal matching share for optional services and beneficiaries by 3%, and require beneficiary copayments. State administrative costs of $0 9 billion in 1982 are proposed to be transferred to a combined welfare administration consolidation grant, which is described above. The medicaid program is a major part of the federalism initiative described earlier.

Four health block grants were enacted in 1981 to provide States more flexibility in the use of these funds. They were for maternal and child health; preventive health and health services; alcohol, drug abuse and mental health, and primary care. Outlays for these four programs are estimated to be $1.7 billion in 1983.

Outlays for *assistance payments* (aid to families with dependent children) and child support enforcement are expected to be $8.1 billion in 1982, and $5.4 billion in 1983. Legislation is proposed for 1983 that would save an estimated $1.3 billion of Federal outlays and about an equal amount for States and localities. Some of the major items would require those who are able to work to do so as a condition of AFDC eligibility, and would include income and other resources that have not previously been counted in determining AFDC benefits. An additional $0.9 billion of the decline is explained by the transfer of State administrative costs from this program to a combined welfare administration grant consolidation, which is described above. The assistance payments program is a major part of the federalism initiative described earlier.

Proposed budget authority for grants to State and local housing authorities declines sharply in 1982 and 1983, to $0.6 billion in 1982 and −$3.7 billion in 1983. These figures result from the administration's proposal to discontinue new construction of subsidized housing under the section 8 and public housing programs with the exception of housing for the elderly and handicapped. A modified version of the section 8 existing rental housing program—to be called the modified section 8 certificate program—is proposed for 1983. This program will place much greater reliance upon existing rental markets to meet the housing needs of low-income households. In addition, a portion of prior year commitments for unstarted new units is expected to be cancelled.

Law enforcement assistance grants in the Office of Juvenile Justice and Delinquency Prevention will be eliminated. These programs, if needed, could be financed directly by States and localities.

Payments in lieu of taxes are made to some jurisdictions that contain Federal open space lands. Outlays for this program are estimated to be $96 million in 1982, and $45 million in 1983. Reforms are proposed to make the distribution of funds more equitable. Revenues are also shared with State and local governments from receipts received from timber and mineral sales on Federal lands. These payments are estimated to increase from $594 million in 1982 to $756 million in 1983.

One of the largest grants is general revenue sharing, which provides grants to local governments with virtually no restrictions on the use of funds. Outlays are estimated to be $4.6 billion in 1983. This program is part of the federalism initiative described earlier.

Additional information on many of these grant programs is in Part 5 of the *Budget*.

Loans.—Another form of Federal aid to State and local governments is assistance in obtaining credit, either directly or through loan guarantees. Direct loan disbursements (excluding repayments) are estimated to be $2.9 billion in 1983, and $167 million of new guaranteed loans are estimated in 1983.

One of the large guarantee loan programs was enacted by Congress in 1978 to assist New York City. The legislation allows for the guarantee of principal and interest for $1,650 million. The remaining guarantee authority is $300 million. The authority to make new guaranteed loans ends June 30, 1982. (More information on Federal credit activities is available in Special Analysis F.)

Tax Expenditures.—Federal aid is also provided through tax expenditures. (More information on tax expenditures is provided in Special Analysis G and, on the assistance from tax-exempt financing, in Special Analysis F.) The method of measuring tax expenditures has been modified in this year's budget to make them more comparable with direct budget outlays. In previous budgets tax expenditures were estimates of revenue losses. In this year's budget, tax expenditures are measured as the amount of outlays that would be required to provide an equal after-tax income to taxpayers.

The two major tax expenditures are the deductibility of many State and local taxes and the exclusion of interest on State and local securities from Federal taxation.

Individuals can claim nonbusiness sales, income, and property tax payments to State and local governments (other than payments already taken as business deductions) as itemized deductions on their Federal tax returns. This permits States and localities to raise a dollar of revenue with less than a dollar of net cost to their citizens. The 1983 outlay equivalent tax expenditure for property taxes on owner-occupied homes is estimated to be $10.5 billion and the outlay equivalent tax expenditure for other nonbusiness State and local taxes—primarily income and sales taxes—is estimated to be $21.9 billion.

Interest on virtually all State and local government securities is tax exempt. This permits State and local jurisdictions to borrow at reduced interest rates. The outlay equivalent tax expenditure for the exclusion of interest on State and local general purpose debt is estimated to be $7.7 billion in 1983.

Interest on State and local industrial revenue bonds is also tax exempt. These bonds finance industrial and transportation projects, pollution control facilities and public and, more recently, selected

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private housing. Tax expenditures in 1983 equivalent to outlays are estimated to be $2.3 billion for industrial facilities, $1.0 billion for pollution control facilities, and $565 million for State and local rental housing bonds.

State and local governments have been using the proceeds of tax-exempt borrowing to provide mortgage funds for private housing. The tax exemption of interest on State and local securities makes it possible to provide such funds at interest rates well below the rates for private mortgages. At first, tax-exempt housing bonds were used mainly to assist low-income, multifamily housing; recently, there has been a dramatic increase in the use of such bonds for owner-occupied housing, including housing purchased by middle and upper income families. The 1983 outlay equivalent tax expenditure is estimated to be $1.3 billion.

Expensive, direct Federal involvement to encourage the redevelopment of distressed urban areas has not solved the most pressing problems of the Nation's cities. The administration, therefore, is proposing the establishment of enterprise zones as an experimental, free-market approach to these problems. By reducing tax and regulatory burdens in clearly delineated geographic areas, the enterprise zone proposal would place greater reliance on the ability of the private sector to create new jobs and new investment in distressed urban areas.

Federal Grants-in-Aid by Function, Agency, and Region

Under the Congressional Budget Act of 1974, the Congress reviews the budget and sets targets by function. Consequently, the functional classification of the budget has become important not only for analysis but also for congressional control. Part 5 of the budget discusses the entire Federal budget by function, and the associated national needs met by these programs.

In recent years the budget has included data for two years beyond the budget year to provide an improved means of planning for the longer term. Consequently, the discussions and data in many parts of this budget include the 1983–85 planning period. Consistent with that approach, this *Special Analysis* shows estimates through 1985 in many of the tables and the chart on a previous page.

Because many of the programs discussed are involved in the federalism initiative, the actual amounts in 1984 and 1985 will depend upon their relation to the initiative or on State's decisions about continuing the programs.

Table H-2 shows a functional distribution of Federal grant-in-aid outlays. Major trends in 1983 are discussed above.

The functional composition of the grant programs has changed significantly over the years, as shown in table H-3. The most

Table H–2. **FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION**

(In millions of dollars)

Function	Actual 1981	Estimate 1982	1983	1984 [1]	1985 [1]
National defense	75	82	106	72	72
Energy	617	679	409	100	.....
Natural resources and environment	4,944	5,110	4,166	3,554	3,389
Agriculture	829	896	859	860	876
Commerce and housing credit	4	5	2	2	2
Transportation	13,462	12,534	11,889	11,654	11,899
Community and regional development	6,124	5,933	5,010	4,441	4,551
Education, training, employment, and social services	21,146	17,310	12,281	11,853	10,737
Health	18,895	20,122	19,469	20,799	22,544
Income security	21,341	21,718	20,331	21,411	22,076
Veterans benefits and services	74	66	65	70	72
Administration of justice	333	257	118	55	33
General government	208	190	163	182	160
General purpose fiscal assistance	6,710	6,319	6,549	6,798	7,104
Total outlays	**94,762**	**91,220**	**81,418**	**81,853**	**83,517**

[1] Data for 1984 and 1985 are included here to be consistent with the multi-year planning system. They have not received as much review as the estimates for 1982 and 1983.

dramatic growth has occurred in the health function, which has increased from 3% of Federal aid in 1960 to an estimated 24% in 1983 and in the education, training, employment and social services function, which increased from 7% in 1960 to 27% in 1970 and has now decreased to an estimated 15% in 1983. Other changes are the addition of general revenue sharing, increases in outlays for environmental protection, and the relative decline in grants for highways and income security. The latter is primarily due to the assumption by the Federal Government of the food stamp program and the public assistance programs for the aged, blind, and disabled.

Table H–3. **PERCENTAGE DISTRIBUTION OF FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION**

	Actual 1960	1970	1980	1981	Estimate 1982	1983	1984 [1]	1985 [1]
Energy	*	*	1	1	1	1	*	*
Natural resources and environment	2	2	6	5	6	5	4	4
Agriculture	3	3	1	1	1	1	1	1
Transportation	43	19	14	14	14	15	14	14
Community and regional development	2	7	7	6	7	6	5	5
Education, training, employment, and social services	7	27	24	22	19	15	14	13
Health	3	16	17	20	22	24	25	27
Income security	39	24	20	23	24	25	26	26
General purpose fiscal assistance	2	2	9	7	7	8	8	9
Other	*	1	1	1	1	1	*	*
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

*0.5% or less.

[1] Data for 1984 and 1985 are included here to be consistent with the new multi-year planning system. They have not received as much review as the estimates for 1982 and 1983.

Table H–4. FEDERAL GRANT-IN-AID OUTLAYS BY AGENCY

(In millions of dollars)

Agency	Actual 1981	Estimate 1982	Estimate 1983
Funds appropriated to the President	597	562	539
Department of Agriculture	6,700	6,449	6,114
Department of Commerce	1,180	1,027	512
Department of Health and Human Services	35,536	36,719	33,447
Department of Housing and Urban Development	8,664	9,459	8,894
Department of the Interior	1,477	1,663	1,602
Department of Justice	317	233	95
Department of Labor	8,972	5,492	3,648
Department of Transportation	13,401	12,458	11,822
Department of the Treasury	6,118	5,465	5,254
Environmental Protection Agency	4,181	4,291	3,585
Community Services Administration	622	183	33
Foundation for Education Assistance	6,047	6,195	4,841
Other	951	1,024	1,032
Total outlays	**94,762**	**91,220**	**81,418**

Table H–4 shows grant outlays by agency. The Department of Health and Human Services will provide 41% of total estimated grant-in-aid outlays in 1983, far more than any other agency.

Distribution of grants by region.—Table H–5 shows that Federal aid on a per capita basis varies widely among regions. The thinly populated Western States traditionally rank high because of highway construction grants and shared revenues from Federal land holdings. For example, the Rocky Mountain States have the lowest regional population density, extensive Federal land holdings and, until recently, the highest per capita aid.

This effect has diminished in recent years, however, as human resource programs have grown relative to physical resource programs. Further, the addition of general revenue sharing has tended to equalize per capita figures among the regions. Region VIII, which had per capita grants 27% above the national average in 1971, now has grants only 5% over the average, while Region V has risen from 26% below the average to only 2% below. Grants per capita to Region V have grown the most during the period, averaging 13.8% per year.

Historical Perspectives

In recent decades, Federal aid to States and local governments has become a major factor in the financing of certain government functions. The rudiments of the present system date back to the Civil War. The Morrill Act, passed in 1862, established the land grant colleges and instituted certain federally required standards, characteristic of the present grant-in-aid system. Federal aid was later initiated for agriculture, highways, vocational education and reha-

Table H–5. **DISTRIBUTION OF GRANTS BY REGION, SELECTED FISCAL YEARS**

	Federal Region	1981 [1] total grants	Dollars per capita		Average annual percent increase, 1971–81
			1971	1981	
I.	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island	5.7	144	455	11.9
II.	New York, New Jersey, Puerto Rico, Virgin Islands	14.7	160	521	12.2
III.	Virginia, Pennsylvania, Delaware, Maryland, West Virginia, District of Columbia	11.3	148	456	11.6
IV.	Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida	13.9	145	350	9.0
V.	Illinois, Indiana, Michigan, Ohio, Wisconsin, Minnesota	18.2	106	398	13.8
VI.	Arkansas, Louisiana, Oklahoma, New Mexico, Texas	8.5	148	330	8.1
VII.	Iowa, Kansas, Missouri, Nebraska	3.9	118	331	10.6
VIII.	Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming	3.1	182	429	8.7
IX.	Arizona, California, Nevada, Hawaii, other territories	11.9	170	413	9.0
X.	Idaho, Oregon, Washington, Alaska	3.7	174	454	9.8
	United States	**94.8**	**143**	**408**	**10.8**

[1] Preliminary estimate, in billions of dollars.
See "Federal Aid to States," Department of the Treasury, for additional information concerning State distribution of Federal grants.

bilitation, forestry, and public health. In the depression years, Federal aid was extended to meet income security and other social welfare needs.

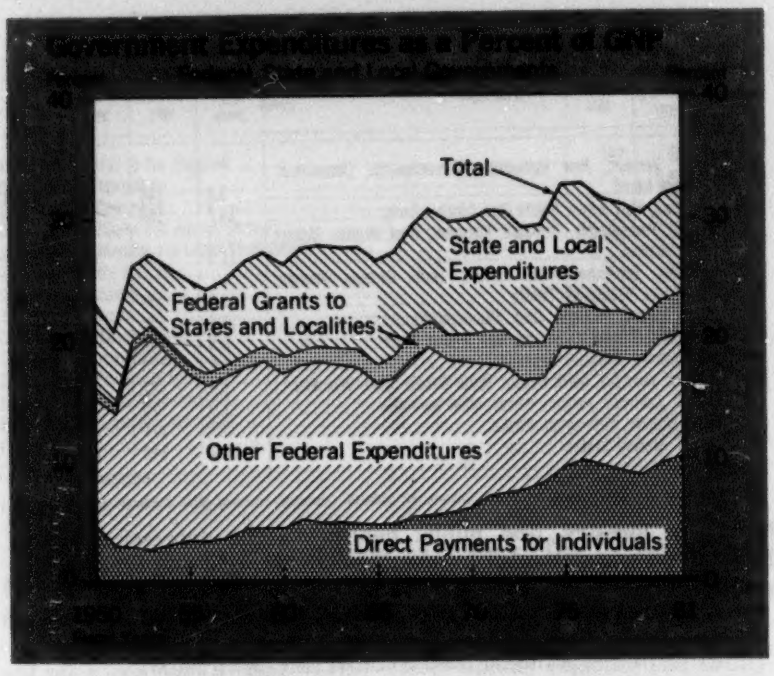
However, Federal grants did not become a significant factor in

Table H–6. **HISTORICAL TREND OF FEDERAL GRANT-IN-AID OUTLAYS**

(Fiscal years; dollar amounts in millions)

	Total grants-in-aid	Composition of grants-in-aid		Federal grants as a percent of		
		Grants for payments to individuals [1]	Other	Budget outlays: Total	Budget outlays: Domestic [2]	State and local expenditures [3]
Five-year intervals:						
1950	$2,253	$1,257	$996	5.3%	8.8%	10.4%
1955	3,207	1,623	1,584	4.7	12.1	10.1
1960	7,020	2,479	4,541	7.6	15.9	14.7
1965	10,904	3,931	6,972	9.2	16.5	15.3
1970	24,014	9,023	14,991	12.3	21.3	19.2
1975	49,834	17,441	32,392	15.4	21.5	23.0
Annually:						
1976	59,093	21,023	38,070	16.2	21.9	24.2
1977	68,414	23,860	44,555	17.1	22.9	25.9
1978	77,889	25,981	51,908	17.4	23.1	26.8
1979	82,858	28,765	54,093	16.9	22.5	26.1
1980	91,472	34,174	57,298	15.9	21.2	26.3
1981	94,762	39,934	54,828	14.4	19.5	25.3
1982 estimate	91,220	41,500	49,720	12.6	17.3	NA
1983 estimate	81,418	37,563	43,855	10.7	15.5	NA
1984 estimate [4]	81,853	39,951	41,902	10.2	15.1	NA
1985 estimate [4]	83,517	42,310	40,207	9.6	14.8	NA

[1] For an identification of accounts in this category, see Table H–11 and footnotes.
[2] Excludes outlays for the national defense and international affairs functions.
[3] As defined in the national income and product accounts.
[4] Data for 1984 and 1985 are included to be consistent with the multi-year planning system. They have not received as much review as the estimates for 1982 and 1983.
NA = Not available.

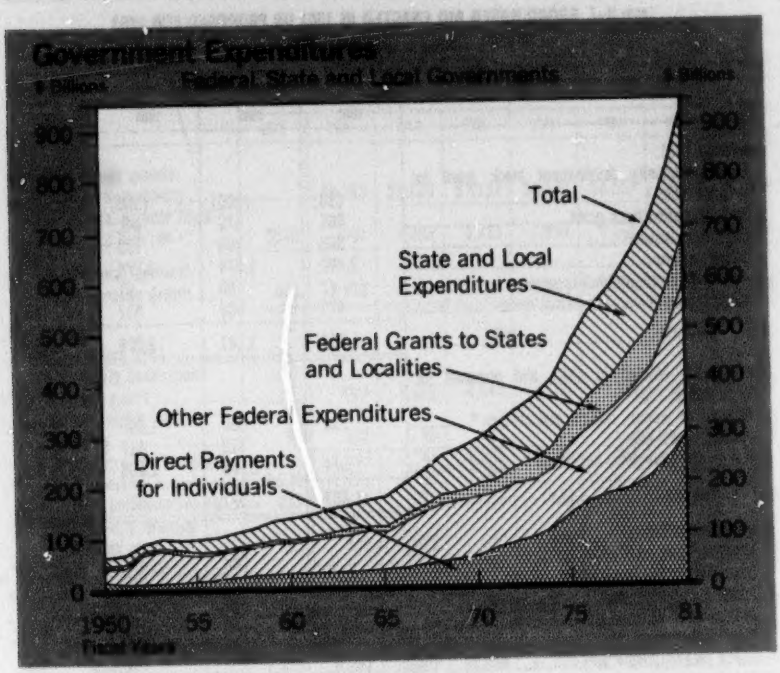


Government expenditures until after World War II. In 1950, Federal grants to State and local governments were $2 billion, and by 1965 they had risen to $11 billion. In 1978, partially because of the economic stimulus grants, they were $77.9 billion, an average annual increase of 16% since 1965. In 1983 Federal grants are expected to be 10.7% of total Federal outlays and 15.5% of domestic Federal outlays. Table H–6 shows historical data for grant outlays since 1950.

Almost half of estimated 1983 grants are to States and localities as payments for individuals.[2] Most such grants are accompanied by State or local matching payments. Among the larger of these programs are medicaid, assistance payments, housing assistance, and nutrition programs for children. Supplemental security income became a direct Federal program in January 1974, as did the food stamps program in 1971. Almost all of the outlays for these programs were included as grants through the year prior to their assumption by the Federal Government, but not since then.

Table H–6 also shows grants-in-aid as a percent of State and

[2] Payments for individuals are defined as Federal budget outlays providing benefits in cash or in-kind that constitute income transfers to individuals or families.



local expenditures. This percent increased from 15.3% in 1965 to 26.8% in 1978, and declined to 25.3% in 1981.

The charts show the growth of total governmental expenditures since 1950, and these expenditures as a percent of gross national product. Federal expenditures including grants have increased as a percent of GNP from 16% in 1950 to 24% in 1981, while State and local expenditures including grants have increased from 8% in 1950 to 12% in 1981.

Grants Administration

The increase in grant expenditures since World War II was accompanied by an increase in the number of grants designated for specific purposes. This increase took place especially in the 1960's and 1970's. These grants usually contained Federal legislative and regulatory mandates, required matching funds from the recipient governments, and gave little discretion in their use to State and local officials. They came to be known as categorical grants, with complex administrative requirements to ensure that their purposes were met.

To combat this trend and to devolve authority, general-purpose and broad-based grants have been emphasized in recent years.

Table H–7 shows the estimated effect of grants enacted in 1981 and proposed for consolidation in 1983. Outlays for these grants are

Table H–7. BROAD-BASED AID ENACTED IN 1981 OR PROPOSED FOR 1983

(Outlays in millions of dollars)

	Estimates			
	1982	1983	1984	1985
Enacted in 1981:				
State community development block grant for small cities [1]	(10)	(200)	(500)	(650)
State education block grant	666	578	441	335
Community services	348	100	100	100
Social services	2,400	1,974	1,974	1,974
Preventive health and health services	72	80	81	81
Alcohol, drug abuse, and mental health	376	409	432	432
Subtotal	3,862	3,141	3,028	2,922
Block grants enacted in 1981 and proposed for change in 1983:				
Services for women, infants, and children [2]	313	900	1,000	1,000
Primary health care		313	417	417
Energy and emergency assistance [3]	1,574	1,168	1,168	1,168
Subtotal	1,887	2,381	2,585	2,585
Proposed consolidations:				
Vocational and adult education		162	392	441
Education for the handicapped		37	643	836
Training and employment		900	2,250	1,800
Rehabilitation services		516	603	633
Child welfare grant		380	380	380
Rental rehabilitation grants			75	150
Combined welfare administration		2,181	2,181	2,181
Subtotal		4,176	6,524	6,421
Total	**5,749**	**9,698**	**12,137**	**11,928**

[1] Outlays are based on estimated State participation and are included in community development block grants shown in table H–8.
[2] Formerly maternal and child health block grant.
[3] Formerly low-income energy assistance program.

estimated to be $9.7 billion in 1983. Table H–8 shows the much greater importance of general-purpose and broad-based grants since 1972. General-purpose grants give State and local governments almost complete discretion in determining their use; broad-based grants give State and local governments considerable discretion within a broadly defined program area, such as health or community development. In 1972 there were virtually no general-purpose or block grants. For 1983, these grants are estimated to be one-fourth of total grants-in-aid. Their share of the total declined somewhat after the economic stimulus program reached its peak in 1978. Despite the elimination of States from general revenue sharing, this percentage remains about one-fourth through 1985.

Most general-purpose and broad-based grants reduce or eliminate the requirement that recipients match Federal funds with their own. Despite the increase in these grants, matching requirements for all grants as a whole have not changed significantly. In 1981, State and local governments were estimated to provide approximately $1 of matching funds for $2.39 of Federal aid; this ratio

Table H–8. OUTLAYS FOR GENERAL-PURPOSE, BROAD-BASED, AND OTHER GRANTS

(Dollar amounts in millions)

	Actual				Estimate			
	1972	1976	1980	1981	1982	1983	1984	1985
General-purpose grants:								
General revenue sharing		$6,243	$6,829	$5,137	$4,570	$4,567	$4,567	$4,567
Other general purpose fiscal assistance and TVA [1]	$516	907	1,765	1,711	1,913	2,162	2,232	2,537
Subtotal, general-purpose grants	**516**	**7,150**	**8,594**	**6,848**	**6,483**	**6,729**	**6,798**	**7,104**
Broad-based:								
Enacted before 1981:								
Community development block grants		983	3,902	4,042	4,005	3,350	3,200	3,456
Comprehensive health grants	90	128	83	23	11	6	4	2
Employment and training [2]		1,698	2,144	2,231	1,695	396		
Social services	1,930	2,251	2,763	2,646				
Criminal justice assistance	233	674	372	316	233	95	32	9
School aid in federally affected areas	602	558	622	693	576	354	302	286
Local public works			416	83	60	30	30	5
Enacted in 1981 or proposed for 1983 [3]					5,749	9,698	12,137	11,928
Subtotal, broad-based grants	**2,855**	**6,292**	**10,302**	**10,034**	**12,329**	**13,929**	**15,705**	**15,686**
Other grants	**31,001**	**45,651**	**72,576**	**77,880**	**72,408**	**60,760**	**59,350**	**60,727**
Total	**34,372**	**59,093**	**91,472**	**94,762**	**91,220**	**81,418**	**81,853**	**83,517**
ADDENDUM: PERCENT OF TOTAL								
General-purpose grants	1.5%	12.1%	9.4%	7.2%	7.1%	8.3%	8.3%	8.5%
Broad-based grants	8.3%	10.6%	11.3%	10.6%	13.5%	17.1%	19.2%	18.8%
Other grants	90.2%	77.3%	79.3%	82.2%	79.4%	74.6%	72.5%	72.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

[1] For detail, see grants in the general purpose fiscal assistance function, Table, H–11. Amounts in Table H–8 above include shared revenues from the Tennessee Valley Authority, shown in the energy function.

[2] Comprehensive Employment and Training Act (CETA). Title II A, B, and C. An additional $1.6 billion of CETA grant-in-aid outlays are estimated for 1982, but they are limited to particular types of clientele (e.g. youth) and therefore are included in other grants, not broad-based grants.

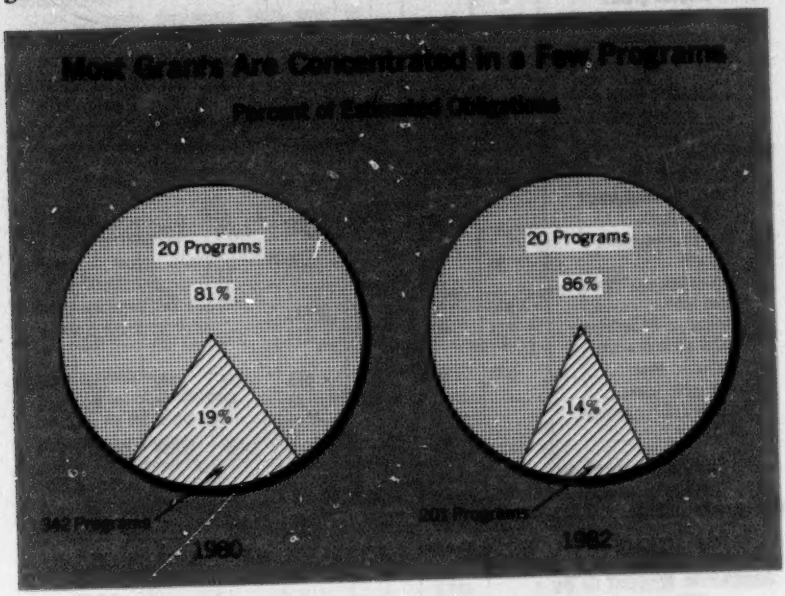
[3] For detail, see table H–7.

declines slightly in 1983. The decrease in matching requirements for general-purpose and broad-based aid has been partially offset by the significant growth in programs such as medicaid that require a larger than average matching share.

The chart shows that of all the grants to State and local governments in 1982 almost 90% is concentrated in only 20 programs. Nevertheless, there are hundreds of categorical grants with different matching requirements, timing difficulties, application procedures, duplication of programs, and other administrative problems.

The chart also shows that there were 362 grants in 1980 and 221 in 1982, a reduction of 141, or about 40%. Most of the decline is the direct result of the 9 new block grants enacted in 1981 and the

elimination of many small programs. In view of the rapid growth of the number of grant programs since the mid-1960's, this decline is a major improvement. This simplification of Federal aid is expected to save a significant number of hours for State and local governments.



In addition to the reduction in the number of programs, one aspect of the administration's efforts at regulatory reform has been a demonstration project aimed at identifying, evaluating, and simplifying or eliminating the mandatory administrative or procedural requirements associated with Federal assistance. The project is oriented toward program specific mandates that contribute to the overhead cost of conducting and administering assistance programs. Mandates are those individual requirements contained in an agency regulation or instruction. An average of 500 mandates have been identified for each program. This intensive review was applied on a test basis by four agencies (the Departments of Housing and Urban Development, Transportation, Education, and the Environmental Protection Agency) for six major programs. Results to date are significant:

—The Environmental Protection Agency has reviewed all the mandates required by the construction grant program. As a result, it has published a proposed rule in the *Federal Register* to

eliminate 75% of the individually listed mandates. A review is underway of those remaining agency-wide mandates governing such activities as those to citizen participation, and the National Environmental Policy Act. Further major reductions are anticipated.

—The Department of Transportation, in both proposed and final rules recently published by the Federal Highway Administration, has achieved appreciable reductions in mandates in eight highway program regulations, and in two guidance documents prescribing requirements for the Urban Mass Transit Administration's mass transit capital grant program. For example, the Federal Highway Administration published in December 1981, a proposed rule revising noise abatement procedures for highway traffic and construction. It eliminates 65% of the mandates in the existing regulation.

—Proposed rules governing Federal assistance for educating handicapped children of preschool and school age, to be published soon in the *Federal Register* by the Department of Education, will eliminate or amend 85% of the administrative and procedural requirements on which the mandate review demonstrations project focused. The proposed rule will also significantly alleviate programmatic requirements related to how the assistance is to be provided. A mandate review of the vocational rehabilitation program will be completed by the Department of Education in March 1982; initial indications are that administrative and procedural burdens will be eased significantly.

—The Department of Housing and Urban Development community development block grant entitlement program will soon publish for public comment in the *Federal Register* a proposed rule reflecting a reduction of over 50% of the volume of the current regulations.

The four agencies will complete the mandate reviews in these programs within the next year.

Additional mandate reviews will be conducted in 1982, particularly where major simplification and elimination seems to be warranted, and where reductions in the mandate burden will benefit State and local governments.

Additional efforts undertaken recently or in the last few years to review and improve the system of intergovernmental aid include:

—Executive Order 12291, establishing for the first time a centralized mechanism for executive management of agency regulatory activities. For example, Federal agencies are required to submit a cost-benefit analysis for any regulation having an impact of more than $100 million.

—Establishment of the Presidential Advisory Committee on Federalism, which includes Cabinet members, state legislators,

governors, mayors, county officials, members of Congress, and private citizens. The Committee is advising the President with respect to the objectives and conduct of the overall federalism policy of the United States.

—Regional briefings sponsored by the White House, OMB, and those Federal agencies with responsibility for administering the block grants.

—Restructuring of 10 Federal Regional Councils to assist in implementing the new block grants, and to improve management and coordination of Federal programs.

—Active Executive Branch participation in the Advisory Commission on Intergovernmental Relations (ACIR).

—Improvements in the Catalog of Federal Domestic Assistance, the reference document used by communities and individuals applying for Federal assistance.

—Improvements in the Federal Assistance Programs Retrieval System (FAPRS). FAPRS uses computer terminals to permit matching the needs of a community with the requirements of Federal programs, and automatically identifies those programs from the *Catalog* for which a community might apply. Changes include more functional categories for program selection, and more information advisory bulletins for users.

—Revised procurement standards. OMB Circular A-102, "Uniform administrative requirements for grants to State and local governments," now includes streamlined procurement standards that place greater reliance on State and local purchasing systems. The new standards permit governments with good systems to have them certified in advance, keeping Federal involvement in procurement under grants to a minimum.

—Establishment of the Federal Assistance Award Data System (FAADS), to provide better information about current grant funding to States. Data on all direct assistance awards are being provided quarterly to the States and to the Congress.

In addition, a number of steps have been taken this year to improve the financial management of Federal aid:

—Deregulation. Block grant programs were stripped of all but essential requirements of law, and categorical programs had regulations cut back significantly.

—Single audit. A single audit system was implemented for aid to State and local governments that relies on their network of audit and investigative resources.

—Cash management. The flow of assistance funds was streamlined by expanded use of electronic funds transfer and delayed drawdown procedures.

—Internal control. New administration guidelines require agencies to tighten up control systems associated with assistance programs.
—Inspectors General. A reinvigorated Inspector General program in the grant-making agencies has come down hard on fraud, abuse, and waste in assisted programs.
—Audit followup. The President has directed that new procedures be put in place to assure that audit findings are resolved within 6 months.

Other Sources of Federal Aid Information

The grant-in-aid series in the budget provides a comprehensive picture of Federal grants-in-aid, which are programs financed but not directly administered by the Federal Government. The Census series (published in *Governmental Finances*) and the national income and product accounts (NIA) series (published in Special Analysis B and in the *Survey of Current Business*) are parts of a broader statistical concept encompassing the entire economy, and as a consequence grants-in-aid are defined somewhat differently than in the budget. They both omit the following items that the budget includes:

—Federal aid to the Governments of Puerto Rico and U.S. territories;
—payments in-kind, primarily commodities purchased by the Department of Agriculture and donated to the school lunch and other nutrition programs; and
—payments to private, nonprofit entities (such as nonprofit hospitals) that operate under State auspices or within a State plan.

One major group of payments excluded in the budget definition of grants but included in the Census and NIA series is payments for research conducted by public universities. The budget series excludes these payments because they are considered to be a purchase of services for the Federal Government rather than aid for State or local programs. Since both Census and the NIA series focus on total cash payments to State and local governments, they count these as grants. A major item included only in the Census definition is unemployment compensation for Federal employees, ex-servicemen, and temporary extended benefits. These items were either new or became large in 1976, when they were first included in the Census data. One major kind of outlay included in the budget and Census definitions but excluded from the NIA series is grants to subsidize the operation of public enterprises, mainly housing and transportation facilities. These are counted as subsidies by the Federal Government in the NIA rather than as grants. Table H-9 shows these and other minor differences among the

three series, but the differences are largely offsetting and, thus, these three series exhibit similar patterns.

Table H–9. THREE MEASURES OF FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1975–80

(In billions of dollars)

	1975	1976	1977	1978	1979	1980
Budget (Special Analysis H)	**49.7**	**59.0**	**68.4**	**77.9**	**82.9**	**91.5**
Less principal exclusions:						
Agricultural commodities	−0.5	−0.5	−0.6	−0.6	−0.7	−1.1
Geographical exclusions	−0.9	−1.0	−1.2	−1.6	−1.8	−2.0
Plus payments for research	1.5	1.8	1.8	2.2	2.4	2.9
Federal unemployment benefits and related		10.6	5.2	1.2	0.8	1.3
All other (net)	−0.2	−0.8	−0.6	0.1	1.6	−1.8
Federal payments (Census)	**49.6**	**69.1**	**73.0**	**79.2**	**85.2**	**90.8**
Less:						
Low-rent public housing	−1.3	−1.6	−1.8	−2.3	−2.8	−3.3
Federal unemployment benefits and related		−10.6	−5.2	−1.2	−0.8	−1.3
All other (net)		0.6	0.2	−1.0	−2.5	0.5
Grants-in-aid (national income and product accounts)	**48.4**	**57.5**	**66.3**	**74.7**	**79.1**	**86.7**

In addition to these data sources, *Federal Aid to States*, published by the Department of the Treasury, lists grant outlays for the most recently completed year by State for more than 100 programs, using the budget definition of grants. The *Catalog of Federal Domestic Assistance*, prepared by the Office of Management and Budget and available from the Government Printing Office, contains a detailed listing of grant-in-aid and other assistance programs; discussions of eligibility criteria, application procedures, and estimated obligations; and related information. This is a primary reference source for communities wishing to apply for grants-in-aid. The *Federal Register* is published daily by the Government Printing Office and has current information on agencies that are accepting applications for specific programs. This source also provides information on eligibility criteria and application procedures.

The State and Local Government Sector of the National Income and Product Accounts[3]

The national income and product accounts (NIA) provide a comprehensive statistical description of the U.S. economy that includes State and local government receipts and expenditures. These data measure the relationship between the State and local governments as a sector of the economy and other sectors. The State and local

[3] Special Analysis B provides general information on the Federal sector of the national income and product accounts.

data are presented here to provide a context in which to compare the grants-in-aid.

There are three major differences between NIA data and a government's own budgetary accounting for receipts and expenditures. First, financial transactions and the purchase and sale of land and other existing assets are excluded from NIA data but are generally included in budgetary data. Second, a large number of transactions in the NIA accounts are recorded on an accrual basis, while many governments show transactions on a cash basis. Third, NIA data aggregate total State and local transactions, whereas many governments separate their general fund from special funds. As a result of these differences, NIA totals are not the same as an aggregate of these governments' financial budgets. However, the NIA data do provide timely estimates of total State and local fiscal transactions not otherwise available and, with care, can be used as financial indicators.

Table H–10. NATIONAL INCOME AND PRODUCT ACCOUNTS, STATE AND LOCAL SECTOR

(Calendar years, in billions of dollars)

	Receipts	Expenditures	Surplus or deficit (–)		
			Total sector	Social insurance funds	Operating account
Five-year intervals:					
1950	21.3	22.5	–1.2	0.7	–1.9
1955	31.7	32.9	–1.3	1.3	–2.6
1960	49.9	49.8	0.1	2.3	–2.2
1965	75.1	75.1	–*	3.4	–3.4
1970	135.4	133.5	1.9	6.9	–5.1
1975	237.7	232.2	5.5	13.1	–7.6
Annually:					
1976	267.8	251.2	16.6	15.6	0.9
1977	298.0	270.0	28.1	17.9	10.1
1978	327.4	298.4	29.0	20.0	9.0
1979	351.2	324.4	26.7	23.9	2.9
1980	384.0	355.0	29.1	26.9	2.1
1981 [1]	416.8	380.3	36.5	32.1	4.4
SEASONALLY ADJUSTED, ANNUAL RATES					
1980:					
I	372.1	345.4	26.6	25.3	1.3
II	373.9	350.0	23.9	25.7	–1.7
III	386.8	358.2	28.6	27.7	0.9
IV	403.4	366.3	37.1	29.0	8.1
1981:					
I	411.7	374.8	36.9	30.4	6.6
II	413.6	377.5	36.1	31.7	4.3
III	419.4	382.1	37.2	32.7	4.6

*$50 million or less.
[1] Preliminary.

NIA State and local sector.—Table H–10 is a historical tabulation of State and local data with the surplus or deficit divided between

two components, social insurance funds and the operating account.[4] The social insurance funds, primarily retirement programs, have been in surplus since before 1950. The funds accumulate assets to pay for their future liabilities. Because these social insurance fund surpluses are not generally available to pay for deficits in operating accounts, the operating account is generally thought to be a better measure of State and local fiscal condition than the surplus or deficit for the sector as a whole.

It is reasonable for the operating account to be in deficit since it includes capital expenditures, often financed through borrowing, and the account was in deficit in the 1950's and 1960's.

In the 1970's however, the account was in surplus several years. Surpluses in 1972 and 1973 resulted from the first general revenue sharing distributions and higher tax receipts generated by tax rate increases and the rapidly expanding economy. In 1974, the operating account returned to a deficit. In part, this reflected a return to previous patterns, as State and local expenditure increases absorbed the increased revenues. It also reflected the recession, with State and local governments choosing to draw down balances accumulated during 1972–73 rather than enact new tax increases. Their fiscal position improved substantially in 1976 compared with 1975, and surpluses have continued into 1979. The operating account had a surplus of $2.9 billion in 1979, and $2.1 billion in 1980. The surplus is expected to increase in 1981.

Detailed Federal Aid Tables

The following two tables present detailed Federal aid data for the three budget years. Table H–11, "Federal Grants to State and Local Governments—Outlays and Budget Authority," provides detailed budget authority and outlay data for grants and shared revenues. Table H–12, "Credit Assistance to State and Local Governments," provides information on direct and guaranteed loans to State and local governments.

[4] The operating account contains all transactions except those of social insurance funds, including expenditures for capital investment.

Table H–11. **FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY**

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Functional code [1]	1981 actual	1982 estimate	1983 estimate
OUTLAYS					**BUDGET AUTHORITY**		
			National defense:				
			Department of Defense—Military:	051			
30	30	34	National Guard centers construction	054	44	59	81
45	52	72	Federal Emergency Management Agency				
75	**82**	**106**	**Total, national defense**	**050**	**44**	**59**	**81**
			Energy:				
480	515	229	Department of Commerce: Energy conservation grants	272	420	59	4
137	163	180	Tennessee Valley Authority	271			
617	**679**	**409**	**Total, energy**	**270**	**420**	**59**	**4**
			Natural resources and environment:				
			Department of Agriculture:	301	50	50	30
71	70	50	Watershed and flood prevention operations	302			9
		6	Soil and water conservation grants	302	14	11	
17	13	6	Resource conservation and development	302	6	5	3
6	4	2	Forest research	302	42	35	26
28	37	27	State and private forestry				
			Department of Commerce:	302	45	−9	2
50	39	13	NOAA—Coastal zone management	306	50	44	3
[2]	45	3	NOAA—Operations research and facilities				
			Department of the Interior:	303			
	4		National recreation and preservation	303	1	8	
16	64	38	Urban park and recreation fund	303	171		
292	276	179	Land and water conservation fund	303		10	*
	8	2	Land acquisition	303	132	145	159
141	128	133	Fish and Wildlife grants				

Table H–11. **FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued**

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Functional code [1]	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
51	44	22	Historic preservation fund	303	24	25	.....
*	*	*	Miscellaneous permanent appropriations	303	*	*	*
26	76	96	Office of Surface Mining, Reclamation, and Enforcement	302	71	84	115
1	5	5	Bureau of Mines	306	.....	9	.....
11	6	.....	Youth conservation corps	302	18	.....	.....
			Environmental Protection Agency:				
300	229	210	Abatement, control, and compliance	304	297	241	184
3,881	4,050	3,350	Construction grants	304	1,605	2,400	2,400
.....	12	25	Hazardous substance response trust fund	304	.....	23	33
7	.....	.....	Water Resources Council	301	7	.....	.....
4,944	**5,110**	**4,166**	**Total, natural resources and environment**	**300**	**2,534**	**3,082**	**2,963**
			Agriculture:				
			Department of Agriculture:				
117	127	133	Cooperative State research service	352	117	129	136
301	310	308	Extension service	352	304	314	312
409	458	418	Commodity Credit Corporation	351	409	458	.....
2	1	.....	Agricultural Marketing Service	352	2	1	.....
829	**896**	**859**	**Total, agriculture**	**350**	**831**	**902**	**448**
			Commerce and housing credit:				
2	2	.....	Department of Agriculture: Rural housing supervisory assistance grants	371	1	.....	.....
2	2	2	Department of Commerce: Minority business development	376	2	2	2
4	**5**	**2**	**Total, commerce and housing credit**	**370**	**3**	**2**	**2**
			Transportation:				
			Department of Transportation:				
16	18	14	Highway beautification	401	6	*	.....

.....	48	176	Interstate transfer grants—highways	401	.....	288	150
8,641	7,830	7,822	Federal aid highways (trust fund)	401	8,869	8,101	7,632
29	17	15	Highway related safety grants	401	−16	*	.....
.....	.....	3	Appalachian highway system	401	.....	.....	79
222	131	103	Other highway aid	401	57	43	.....
199	175	105	National Highway Traffic Safety Administration	401	106	102	102
51	84	105	Federal Railroad Administration	401	77	60	20
3,771	3,678	3,099	Urban Mass Transportation Administration	401	4,585	3,432	3,089
469	475	374	Airport and airway trust fund	402	570	450	450
*	*	.....	State boating safety assistance	403	.....	.....	.....
.....	.....	5	National recreational boating safety	403	.....	.....	5
3	2	2	Research and special programs	407	3	2	2
61	75	66	Washington Metropolitan Area Transit Authority	401	66	52	52
13,462	**12,534**	**11,889**	**Total, transportation**	**400**	**14,323**	**12,531**	**11,581**
			Community and regional development:				
			Funds appropriated to the President:				
329	287	284	Appalachian regional development programs	452	292	144	.....
*	2	*	Appalachian housing fund	452	.....	.....	.....
268	272	255	Disaster relief	453	158	202	218
*	1	.....	Public works acceleration	452	.....	.....	.....
			Department of Agriculture:				
5	3	1	Rural development planning grants	452	5	.....	.....
269	255	204	Rural water and waste disposal grants	452	200	125	120
9	8	5	Rural development grants	452	5	.....	.....
4	3	2	Rural community fire protection grants	452	4	3	.....
			Department of Commerce:				
408	296	178	Economic development assistance programs	452	365	198	.....
83	60	30	Local public works program	452	.....	.....	.....
*	*	.....	Drought assistance program	453	.....	.....	.....
31	8	8	Regional development programs	452	19	.....	.....
43	9	3	Regional development commissions	452	25	.....	.....
2	8	8	NOAA: Coastal energy impact fund	452	.....	−7	.....
15	13	12	Energy conservation grants	452	10	−14	.....

See footnotes at end of table.

Table H–11. **FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued**

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Functional code [1]	1981 actual	1982 estimate	1983 estimate
	OUTLAYS				BUDGET AUTHORITY		
			Department of Housing and Urban Development:				
4,042	4,005	3,350	Community development grants	451	3,695	3,456	3,456
371	525	550	Urban development action grants	451	675	440	440
.....	.....	.....	Rental rehabilitation grants	451	.....	.....	150
39	20	5	Planning assistance	451	16	.....	.....
9	5	.....	Neighborhood self-help development program	451	1	.....	.....
156	112	70	Urban renewal programs	451	.....	.....	.....
10	8	8	Other categorical programs replaced by block grants	451	.....	.....	.....
1	1	*	New Community Development Corporation	451	−4	*	.....
18	17	19	Department of the Interior: Bureau of Indian Affairs	452	18	17	19
12	14	16	Neighborhood Reinvestment Corporation	451	12	14	16
3,124	5,933	5,010	**Total, community and regional development**	450	5,495	4,578	4,419
			Education, training, employment, and social services:				
			Department of Commerce:	504	.....	.....	.....
*	6	.....	Job opportunities program	503	20	18	.....
20	25	24	Public telecommunications facilities, planning and construction				
			Department of Health and Human Services:	501	5	5	5
5	5	5	Services to selected groups	504	351	232	.....
368	255	11	Work incentives	506	2,399	2,400	1,974
2,646	2,912	1,974	Social services block grant	506	2,470	2,447	2,231
2,707	2,168	2,270	Services to selected groups	506	47	39	26
54	46	39	Research and demonstration projects	506	174	465	380
180	493	383	Child welfare block grants	506	.....	336	91
.....	286	136	Community services				
			Department of the Interior:	501	5	5	4
5	5	4	Operation of Indian programs	501	77	67	47
52	68	64	Indian education assistance	501	22	8	.....
9	25	18	Impact aid construction				

5,926	3,266	1,531	Department of Labor:				
52	53	1	Employment and training assistance	504	6,070	2,373	1,800
852	55	.....	Community service employment for older Americans	504	67	16	.....
51	−7	14	Temporary employment assistance	504	431	.....	.....
730	532	444	Grants to States for unemployment insurance and employment	504	24	19	14
683	551	336	Unemployment trust fund: Training and employment	504	751	505	444
576	183	33	Department of Treasury: Impact aid	501	635	440	284
162	172	137	Community Services Administration	506	480	.....	.....
			Corporation for Public Broadcasting	503	162	172	137
723	1,111	632	Foundation for Education Assistance:				
3,345	2,944	2,537	Vocational and adult education	501	775	629	450
627	583	527	Compensatory education for the disadvantaged	501	3,098	2,469	1,937
1,023	1,255	871	Special programs and populations	501	530	452	416
160	138	127	Education for the handicapped	501	1,015	778	836
78	75	55	Bilingual education	501	147	118	89
11	1	.....	Student financial assistance [2]	502	77	74	.....
80	87	92	Higher and continuing education	502	5	.....	.....
20	19	16	Libraries	503	84	58	.....
			National Foundation on the Arts and the Humanities	503	24	21	13
21,146	**17,310**	**12,281**	**Total, education, training, employment, and social services**	**500**	**19,946**	**14,147**	**11,178**
			Health:				
*	*	.....	Special Action Office for Drug Abuse Prevention	554	.....	.....	.....
30	30	32	Department of Agriculture: Food Safety and Inspection Service	554	31	30	32
			Department of Health and Human Services:				
968	1,148	1,627	Health Services Administration [2]	551	968	859	1,422
114	151	92	Centers for Disease Control	551	115	138	62
664	684	147	Alcohol, Drug Abuse, and Mental Health Administration [2]	551	549	432	.....
240	233	125	Health Resources Administration	551	195	149	39
.....	.....	385	Office of Assistant Secretary for Health: health block grants [2]	551	.....	.....	514
16,833	17,823	17,006	Medicaid [2]	551	17,440	17,968	12,925
			Department of Labor:				
40	48	49	Occupational Safety and Health Administration	554	44	47	51
5	5	4	Mine Safety and Health Administration	554	6	3	5
18,895	**20,122**	**19,469**	**Total, health**	**550**	**19,348**	**19,627**	**15,051**

See footnotes at end of table.

Table H–11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Functional code [1]	1981 actual	1982 estimate	1983 estimate
OUTLAYS				BUDGET AUTHORITY			
			Income security:				
			Department of Agriculture:				
17	20	21	Rural housing for domestic farm labor [2]	604	25	14	12
7	8	5	Mutual and self-help housing [2]	604		4	
285	418	365	Agricultural Marketing Service [2]	605	377	457	405
489	774	578	Food stamp program [2]	605	507	809	546
		780	Nutrition assistance for Puerto Rico [2]	605			825
		42	Nutrition assistance for the territories [2]	605			44
100	33	2	Special milk program [2]	605	114	27	
3,259	2,581	2,561	Child nutrition programs [2]	605	3,272	2,693	2,673
928	914	127	Special supplemental food programs (WIC) [2]	605	924	931	
104	137	96	Food donations program [2]	605	129	141	65
			Department of Health and Human Services:				
45	23	15	Supplemental security income program [2]	609	35	22	15
8,462	8,070	5,422	Assistance payments programs [2]	609	8,440	6,051	5,422
		387	Child support enforcement	609			387
		1,655	Combined welfare administration	609			1,655
1,606	1,687	1,168	Emergency and energy assistance [2]	609	1,714	1,574	1,168
641	736	597	Refugee and entrant assistance [2]	609	745	628	509
1	1	*	Payments to States from receipts for child support	609	*	*	*
			Department of Housing and Urban Development:				
3,105	3,493	3,789	Subsidized housing programs [2]	604	17,785	568	−3,731
929	1,278	1,110	Operation of housing projects [2]	604	1,071	1,293	1,075
1	4	6	Congregate services program [2]	604			
1,315	1,541	1,605	Department of Labor: Unemployment trust fund (training and employment) [2]	603	1,252	1,408	1,605
46			Community Services Administration [2]	609			
21,341	**21,718**	**20,331**	**Total, income security**	**600**	**36,392**	**16,621**	**12,675**

			Veterans benefits and services:				
			Veterans Administration:				
41	43	44	Medical care [2]	703	41	43	44
1	4		Medical administration and miscellaneous operating expenses	703	*	4	
9	9	10	Grants for construction of State extended care facilities [2]	703	15	16	18
23	7	6	Assistance for health manpower training institutions	703			
1	3	5	Grants for the construction of State veterans cemeteries	705	5		2
74	**66**	**65**	**Total, veterans benefits and services**	**700**	**61**	**63**	**64**
			Administration of justice:				
1	8	6	Department of Housing and Urban Development: Fair housing assistance	751	6	5	6
			Department of Justice:				
8	8	11	National Institute of Corrections	754	8	9	9
307	225	84	Law enforcement assistance	754	82	61	
1			Research and statistics	754			
*	*	*	Revolving fund	754			
15	17	17	Equal Employment Opportunity Commission	751	18	18	18
333	**257**	**118**	**Total, administration of justice**	**750**	**113**	**93**	**32**
			General government:				
			Department of the Interior:				
73	81	62	Administration of territories	806	73	85	52
117	101	101	Trust Territory of the Pacific Islands	806	95	97	76
18	9		Office of Personnel Management (intergovernmental personnel assistance)	806	14		
208	**190**	**163**	**Total, general government**	**800**	**182**	**182**	**128**
			General purpose fiscal assistance:				
241	242	342	Department of Agriculture: Forest Service permanent appropriations	852	241	242	342
5	5	5	Department of Defense—Civil: Water resources permanent appropriations	852	5	5	6
			Department of the Interior:				
104	96	45	Payments in lieu of taxes	852	103	96	45
436	594	756	Bureau of Land Management permanent appropriations	852	436	594	756
12	9	4	Fish and Wildlife Service	852	14	10	4
113	57	54	Payments to U.S. territories	852	66	54	54
*	*		Internal revenue collections for the Virgin Islands	852			

See footnotes at end of table.

Table H–11. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY—Continued

(In millions of dollars)

1981 actual	1982 estimate	1983 estimate	Function, agency and program	Functional code [1]	1981 actual	1982 estimate	1983 estimate
OUTLAYS					BUDGET AUTHORITY		
			Department of the Treasury:				
5,137	4,570	4,567	State and local government fiscal assistance trust fund	851	4,570	4,567	4,567
	2		Antirecession financial assistance fund	852			
58	77	81	U.S. Customs Service	852	71	77	81
240	265	270	Internal revenue collections for Puerto Rico	852	236	265	270
365	402	425	Federal payment to the District of Columbia	852	365	402	425
*	*	*	Federal Energy Regulatory Commission: Payments to States under Federal Power Act	852	*	*	*
6,710	**6,319**	**6,549**	**Total, general purpose fiscal assistance**	**850**	**6,109**	**6,311**	**6,549**
94,762	**91,220**	**81,418**	**Total, grants-in-aid**		**105,802**	**78,259**	**65,176**

*$500 thousand or less.

[1] For a description of these codes, see Table 13 in the *Budget of the United States Government, 1983*.

[2] Programs included in the "Grants for payments to individuals" category shown in Table H–6.

Table H–12. **CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS** [1]

(In millions of dollars)

Function, agency and program		Direct loans			Guaranteed loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Natural resources and environment:							
Department of the Interior: Drought emergency loan fund	New loans						
	Net loans	*–5*	*–2*	*–2*			
	Outstandings	**25**	**22**	**20**			
Agriculture:							
Department of Agriculture:							
Agriculture credit insurance fund	New loans	•	•	•	3	2	2
	Net loans	•	•	•	•	•	•
	Outstandings	**1**	**•**	**•**	**10**	**9**	**8**
Commerce and housing credit:							
Department of Agriculture:							
Rural housing insurance fund	New loans	6	1	1	5	1	1
	Net loans	•	*–1*		•	•	•
	Outstandings	**2**	**1**	**1**	**23**	**22**	**23**
Transportation:							
Department of Commerce:							
Federal ship financing fund (MARAD)	New loans				31	50	25
	Net loans				*21*	*38*	*12*
	Outstandings				**192**	**230**	**242**
Department of Transportation:							
Federal aid highways (trust fund)	New loans	12	19	32			
	Net loans	*12*	*19*	*32*			
	Outstandings	**15**	**34**	**66**			
Right-of-way revolving fund	New loans	7	45				
	Net loans	*7*	*45*				
	Outstandings	**195**	**240**	**240**			
Urban mass transportation fund	New loans						
	Net loans						
	Outstandings	**47**	**47**	**47**			

See footnotes at end of table.

Table H–12. CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS [1]—Continued

(In millions of dollars)

Function, agency and program		Direct loans			Guaranteed loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
Total, transportation	New loans	19	64	32	31	50	25
	Net loans	*19*	*64*	*32*	*21*	*38*	*12*
	Outstandings	**257**	**321**	**353**	**192**	**230**	**242**
Community and regional development:							
Department of Agriculture:							
Rural development insurance fund	New loans	867	866	668			
	Net loans	*10*	*−36*	*1*			
	Outstandings	**242**	**206**	**207**			
Department of Commerce:							
Drought assistance program	New loans	1					
	Net loans	*−6*	*−8*	*−8*			
	Outstandings	**91**	**83**	**75**			
Coastal energy impact fund	New loans	34	30	15			
	Net loans	*34*	*29*	*13*			
	Outstandings	**67**	**96**	**109**			
Department of the Interior:							
Emergency fund	*New loans*	*−5*	*−2*	*−2*			
	Net loans	**25**	**22**	**20**			
	Outstandings						
Department of Housing and Urban Development:							
Urban renewal programs	New loans	61	30		13	5	5
	Net loans	*−9*	*−12*		*−94*	*−45*	*−45*
	Outstandings	**12**			**181**	**136**	**91**
Revolving fund (liquidating programs)	New loans		*	38			
	Net loans	*−17*	*−18*	*661*			
	Outstandings	**416**	**399**	**1,060**			

Community development loans	New loans				45	120	135
	Net loans				*28*	*106*	*98*
	Outstandings				**74**	**180**	**278**
Total, community and regional development	New loans	962	926	720	59	125	140
	Net loans	*7*	*−46*	*666*	*−66*	*61*	*53*
	Outstandings	**852**	**806**	**1,471**	**255**	**316**	**369**
Education, training, employment and social services:							
Foundation for Education Assistance:							
Student loan insurance fund	New loans	3	3	2			
	Net loans	*3*	*3*	*2*			
	Outstandings	**92**	**95**	**97**			
Student financial assistance	New loans						
	Net loans						
	Outstandings	**20**	**20**	**20**			
Department of the Treasury:							
Higher education facilities loan fund	New loans	1	1	1			
	Net loans	*−6*	*−6*	*−6*	*−17*	*−19*	*−20*
	Outstandings	**159**	**153**	**147**	**945**	**926**	**906**
Total education, training, employment, and social services.	New loans	4	4	3			
	Net loans	*−3*	*−3*	*−4*	*−17*	*−19*	*−20*
	Outstandings	**271**	**268**	**264**	**945**	**926**	**906**
Health:							
Department of Health and Human Services:							
Medical facilities guarantee and loan fund	New loans						
	Net loans	*−6*	*−5*	*−6*			
	Outstandings	**180**	**175**	**170**			
Income security:							
Department of Housing and Urban Development:							
Low-rent public housing	New loans	4,392	3,000	2,000			
	Net loans	*180*	*−50*				
	Outstandings	**368**	**318**	**318**			

See footnotes at end of table.

Table H-12. CREDIT ASSISTANCE TO STATE AND LOCAL GOVERNMENTS [1]—Continued

(in millions of dollars)

Function, agency and program		Direct loans			Guaranteed loans		
		1981 actual	1982 estimate	1983 estimate	1981 actual	1982 estimate	1983 estimate
General Government:							
Department of the Interior:							
Administration of territories	New loans	1				30	
	Net loans	*1*	*−18*		•	*30*	*−1*
	Outstandings	18			66	96	95
General purpose fiscal assistance:							
Department of the Treasury:							
New York City loan guarantees	New loans				300	300	
	Net loans				*211*	*207*	*−132*
	Outstandings				938	1,144	1,012
Other independent agencies:							
Loans to the District of Columbia	New loans	214	225	145			
	Net loans	*107*	*117*	*116*			
	Outstandings	1,567	1,684	1,799			
Total, general purpose fiscal assistance	New loans	214	225	145	300	300	
	Net loans	*107*	*117*	*116*	*211*	*207*	*−132*
	Outstandings	1,567	1,684	1,799	938	1,144	1,012
Grand total	New loans	5,598	4,220	2,901	398	508	167
	Net loans	*793*	*49*	*795*	*148*	*316*	*−87*
	Outstandings	3,889	3,747	4,542	2,428	2,744	2,656

[1] Only direct loans are included in budget outlays. New direct loans less loan repayments, sales, etc., are net loans, which are counted in the budget as outlays. Guaranteed loans are non-Federal loans guaranteed by the Federal government. For a discussion of credit in the budget, see "Special Analysis, F, "Federal Credit Programs"